

State of New Mexico
Alto Lakes Water and
Sanitation District

Basic Financial Statements and
Required Supplementary Information
For the Year Ended June 30, 2013
and Independent Auditor's Report

STATE OF NEW MEXICO ALTO LAKES WATER AND SANITATION DISTRICT

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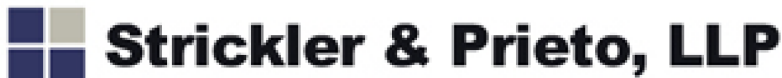
**STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT**

**OFFICIAL ROSTER
JUNE 30, 2013**

Board of Directors

Daniel B. Knorr
Robert G. Decker
Gary G. Parker
William B. Pope
David Winans

Chairman
Vice-Chairman
Secretary
Treasurer
Director



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INDEPENDENT AUDITOR'S REPORT

Hector H. Balderas, New Mexico State Auditor
and the Board of Directors of the
Alto Lakes Water and Sanitation District
Alto, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Alto Lakes Water and Sanitation District (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the budget comparisons presented as other supplemental information in the financial statements as of and for the year ended June 30, 2013, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the District's financial statements and the budgetary comparisons. The accompanying schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



November 13, 2013

STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013

This discussion and analysis of the Alto Lakes Water and Sanitation District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ending June 30, 2013. The MD&A should be read in conjunction with the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

The District completed its fifth full fiscal year of operating the water and wastewater systems on June 30, 2013. The District Board and Management are pleased to report significant progress on many fronts since acquiring the assets of the Alto Lakes Water Corporation on April 1, 2008:

- Net Income from Operations, which is used to fund system improvements, debt service, interest costs and replacement reserves, increased to \$1,795,980.
- Cash totaled \$1.17 million at June 30, 2013. This includes \$368,624 in Reserves for Replacement, \$75,333 in accrued System Upgrade Fees and \$724,078 in unencumbered cash.
- Distribution System Upgrade Phase A construction was completed in April 2013, replacing all existing 3" to 6" water mains along High Mesa, French Drive, and Deer Park Drive with 8" lines and new fire hydrants. These lines form the "backbone" of our 22 miles of distribution system. Construction was funded in large measure with \$1.8 million in Water Trust Board grants and loans. The District was fortunate to enter into a partnership with Otero Electric to install their new, primary distribution electric conduit in the same ditch as the new water line, thereby helping with the costs and providing a valuable improvement to future electrical service.
- Debt, carrying rates between ½% and 2% for 20 years, increased to \$4.09 million upon completion of Distribution System Upgrade Phase A.
- In December 2012, the District conducted an advisory referendum to get customers' opinion on continuing system upgrades. By overwhelming majority customers responded to continue upgrades as fast as possible by approving an \$8.00 monthly System Upgrade Fee for infrastructure improvements.

OPERATIONAL HIGHLIGHTS

- The District's water supply is in excellent shape with sustainable production exceeding twice our peak sustained usage. The District has sufficient water rights to meet the needs of District customers through build-out; however, we have become concerned by the increasing demands from the Village of Ruidoso on ground water resources in Eagle Creek. The Board retained a hydrology consultant who has developed extensive water resource modeling capabilities for the District's well fields. The District is working closely with its hydrologist and water rights counsel to take proactive steps to insure that the District's water supply is not compromised by the Village's well drilling program in Eagle Creek.
- The District's water continues to meet all Federal and State primary drinking water standards.
- The wastewater treatment plant, which serves the Club house and town homes, continues to operate normally. The District is studying possible improvements to the system.
- Our small staff of four system operators not only keeps the system running but has been productive in upgrading the system. Pressure Regulating Valves (PRV's) are critical to

maintaining consistent household water pressure; especially within a system that includes so many elevation changes. When the District acquired the water system in the spring of 2008, only 4 of the 21 PRV's were fully operational. District Staff has repaired or replaced 16 of the system PRV's. They have also installed numerous additional valves which allow us to limit water outages to fewer customers when system repairs are required. Staff also managed to rehabilitate one of the two sewage lift stations in the past year with new electrical panels, pumps, and plumbing.

- District assumed solid waste operations December 1, 2012 to better control costs and provide desired level of service to customers. As of September 1, 2013, district will have lowered solid waste rates \$2.50 per month and made mulch available to customers free of charge. Numerous customers have reported excellent service provided by our solid waste staff

The District Board and Management is dedicated to the completion of current and projected system upgrade projects to facilitate improved service to our customers, and to do so within the confines of our fiduciary responsibility of public funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements contain two components: 1) financial statements, and 2) notes to those financial statements. This annual financial report also contains other supplementary information in addition to the basic financial statements.

The District for financial statement reporting purposes is considered a business like entity and accounted for similar to an enterprise fund. As such, it does not include in its financial statements financial information for individual general ledger funds that are used for internal accounting purposes.

The District distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations which are the provision of water and sewer services to customers within the District's service area. The principal operating revenues result from exchange transactions in which each party receives and gives up essentially equal values.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Condensed Statement of Net Position		
	2012	2013
Current and other assets	\$ 2,047,647	\$ 1,426,681
Capital assets (net of depreciation)	<u>4,414,243</u>	<u>6,582,808</u>
Total assets	<u>\$ 6,461,890</u>	<u>\$ 8,009,489</u>
Current liabilities	\$ 141,688	\$ 293,248
Long-term liabilities	<u>4,313,268</u>	<u>3,913,327</u>
Total liabilities	<u>\$ 4,454,956</u>	<u>\$ 4,206,575</u>
Net position:		
Net investment in capital assets	\$ 137,042	\$ 2,495,844
Unrestricted	<u>1,869,892</u>	<u>1,307,070</u>
Total net position	<u>\$ 2,006,934</u>	<u>\$ 3,802,914</u>

CAPITAL ASSETS AND LONG-TERM LIABILITIES

During FY2013, the District completed projects to include the Water Distribution Upgrade-A, Pressure Reducing Valves Replacement, and Meter Replacement.

Capital purchases included a new Water Rights and Hydrology Model and Waste Water Treatment and Disposal Equipment.

Condensed Statement of Changes in Net Position		
	2012	2013
Revenues		
Program revenues		
Charges for services	\$ 1,576,641	\$ 1,829,597
General Revenue		
Property taxes	-	-
Miscellaneous income	135,663	1,347,231
Total revenue	<u>1,712,304</u>	<u>3,176,828</u>
Expenses		
General government	-	-
Water	1,020,777	1,228,327
Wastewater	95,251	75,553
Interest	70,833	76,968
Total expenses	<u>1,186,861</u>	<u>1,380,848</u>
Change in net position	<u>525,443</u>	<u>1,795,980</u>
Net position - Beginning of year	<u>1,481,491</u>	<u>2,006,934</u>
Net position - End of year	<u>\$ 2,006,934</u>	<u>\$ 3,802,914</u>

The District increased revenue during FY2013 by adjusting utility billing rate structure, effective September 1, 2012, based on Cost of Living Index increases.

Expenses increased during FY2013 due to salary increases with related benefit costs, increased electric rates for well pumps, operational supplies and increased repairs and maintenance on aging equipment.

BASIC FINANCIAL STATEMENTS

**STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT**

**STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2013**

	Water and Wastewater Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,168,035
Accounts receivable, net	<u>223,323</u>
Total current assets	<u>1,391,358</u>
Deferred financing costs, net of accumulated amortization of \$5,445	35,323
Capital assets	<u>6,582,808</u>
Total assets	<u>\$ 8,009,489</u>
LIABILITIES AND NET POSITION	
Accounts payable	\$ 41,160
Accrued liabilities and other expenses	44,325
Accrued compensated absences	13,989
Current portion notes payable	<u>193,774</u>
Total current liabilities	<u>293,248</u>
NON-CURRENT LIABILITIES	
Accrued compensated absences	20,137
Notes payable	<u>3,893,190</u>
Total non-current liabilities	<u>3,913,327</u>
Total liabilities	<u>4,206,575</u>
NET POSITION	
Net investment in capital assets	2,495,844
Unrestricted	<u>1,307,070</u>
Total net position	<u>3,802,914</u>
Total liabilities and net position	<u>\$ 8,009,489</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Water and Wastewater Fund
Operating revenues:	
Water revenue	\$ 774,790
Irrigation water revenue	453,911
Wastewater revenue	98,778
Fire protection fees	98,806
System upgrade fees	159,967
Solid waste charges	185,884
Other charges for services	57,461
	<u>1,829,597</u>
Total operating revenues	<u>1,829,597</u>
Operating expenses:	
Personnel services	506,778
Utilities and fuel	189,160
Other operating expenses	368,710
Depreciation expense	239,232
	<u>1,303,880</u>
Total operating expenses	<u>1,303,880</u>
Operating income	<u>525,717</u>
Nonoperating revenues (expenses)	
Interest income	12,971
Interest expense	(76,968)
Grant revenue	1,334,260
	<u>1,270,263</u>
Total nonoperating revenues (expenses)	<u>1,270,263</u>
Changes in net position	<u>1,795,980</u>
Net position, beginning of year	<u>2,006,934</u>
Net position, end of year	<u>\$ 3,802,914</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	Water and Wastewater Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 1,809,270
Cash payments to suppliers for good and services	(736,926)
Cash payments to employees for services	(384,507)
	<hr/>
Net cash provided by operating activities	687,837
	<hr/>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Proceeds from grants	1,334,260
	<hr/>
Net cash provided by non-capital financing activities	1,334,260
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(2,407,797)
Principal payments on notes payable	(190,237)
Interest paid on notes payable	(76,968)
	<hr/>
Net cash used in capital and related financing activities	(2,675,002)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from redemption of investments	376,318
Interest income	12,971
	<hr/>
Net cash provided by investing activities	389,289
	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(263,616)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,807,969
	<hr/>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,544,353</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 525,717
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	240,591
Changes in assets and liabilities	
Accounts receivable	(20,327)
Accounts payable	(60,420)
Accrued liabilities and other expenses	4,217
Compensated absences	(1,941)
	<hr/>
Total adjustment	162,120
	<hr/>
Net cash provided by operating activities	<u>\$ 687,837</u>

See accompanying notes to financial statements.

STATE OF NEW MEXICO ALTO LAKES WATER AND SANITATION DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Alto Lakes Water and Sanitation District (the "District"), is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who is responsible for their integrity and objectivity.

The Alto Lakes Water and Sanitation District was created in 2005 under the authority of the Water and Sanitation District Act of New Mexico, NMSA 1978, Sections 73-21-1 through 73-21-5. The District operates under a Board of Directors consisting of five elected members. The purpose of the District is to provide water, wastewater, and other services in the subdivisions of Alto Lakes and adjacent areas of Lincoln County, New Mexico.

On April 1, 2008, the District purchased all the assets of the Alto Lakes Water Corporation, including a water and wastewater utility, wastewater treatment plant, land and other assets for \$2,505,265. Effective April 1, 2008 the District began operating the water and wastewater utility.

The following is a summary of the District's accounting policies.

A. Reporting Entity

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including or excluding a potential component unit with the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The proprietary financial statements are reported using the economic resources measurement focus and uses the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The net position of the District is segregated into invested in capital assets, restricted and unrestricted components. The statements of revenues, expenses and changes in net position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as needed.

Program revenues include fees, fines, and charges paid by the recipients of good and services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements—The fund financial statements provide information about the District's funds. Separate statements for each fund category-governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major enterprise fund:

Water and Wastewater Fund—The fund accounts for the activities of the District's water and wastewater utility, which provides service to the residents of the subdivisions of Alto Lakes and adjacent areas of Lincoln County, New Mexico.

New Governmental Accounting Standards—In March 2012, Statement No. 65 Items Previously Reported as Assets and Liabilities, which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The standard will be implemented for year ending June 30, 2014.

In March 2012, Statement No. 66 Technical Corrections 2012, an amendment of GASB Statements No. 10 and No. 62, which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The standard is expected to have no effect on the District in upcoming years.

In June 2012, Statement No. 67 Financial Reporting for Pension Plans, an amendment of GASB Statements No. 25, which is effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged. The standard is expected to have no effect on the District in upcoming years.

In June 2012, Statement No. 68 Accounting and Financial Reporting for Pensions, an amendment of GASB Statements No. 27, which is effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. The standard is expected to have no effect on the District in upcoming years.

In January 2013, Statement No. 69 Government Combinations and Disposals of Government Operations, which is effective for financial statements for periods beginning after December 15, 2013. Earlier application is encouraged. The standard is expected to have no effect on the District in upcoming years.

C. Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents are considered to be cash on hand, demand deposits, and other short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in interest bearing accounts with local financial institutions, direct obligations of the U.S. Treasury or New Mexico political subdivision, and the State Treasurer's Investment Pool.

New Mexico Statutes require that financial institutions with public monies on deposit pledge collateral, to the owner of such public monies, in an amount not less than 50% of the uninsured public monies held on deposit. Collateral pledged is held in safekeeping by other financial institutions, with safekeeping receipts held by the District. The pledged securities remain in the name of the financial institution.

D. Receivables

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific customer accounts, the aging of the accounts receivable, historical experience, and other currently available evidence. The District believes it will collect all of its receivables, and accordingly has not recorded an allowance for doubtful accounts.

E. Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Capital assets, which include property, plant, equipment, software, and infrastructure assets are reported in the applicable columns in the government-wide financial statements.

The District defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Major outlays for capital assets and improvements are capitalized as constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

	Business-type Activities
Buildings and improvements	5-40
Water and sewer system	10
Office furniture, equipment and software	3-10
Vehicles	5-10

F. Compensated Absences

The District permits its employees to accumulate a limited amount of earned but unused vacation, which will be paid if not used, upon termination. Accumulated sick leave benefits vest with each employee in accordance with District policy and will be paid at 50% of the employee's pay rate, if not used, upon termination. All vacation pay and applicable accumulated sick leave is accrued when incurred in the government-wide financial statements.

G. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net position.

H. Deferred Charges

Deferred charges consist of financing costs related to the District's long-term debt and are amortized over the term of the debt using a method that approximates the effective interest method. Amortization expense for the year ended June 30, 2013 was \$1,359.

I. Analysis for Impairment

Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined based upon a comparison of future cash flows to the recorded value of the assets. Impairment losses are measured based upon the fair value of the impaired assets. No such impairment losses were recorded during the year ended June 30, 2013.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results may differ from those estimates.

K. Components of Net Position

Components of net position include the following:

- Net Investment in Capital Assets - Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets.
- Restricted Net Position - Consists of assets and deferred outflows less related liabilities and deferred inflows reported in the statement of net position that are subject to restraints on their use.
- Unrestricted Net Position - Consists of assets and deferred outflows less related liabilities and deferred inflows reported in the statement of net position that are not subject to restraints on their use.

L. Subsequent Events

Management has evaluated subsequent events through November 13, 2013, the date which the financial statements were available to be issued.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a government unit, the District is subject to various laws and contractual regulations. An analysis of the District's compliance with significant laws and regulations and demonstration of its stewardship over District resources follows:

Budgets and Budgetary Accounting

Special Districts follow procedures that are promulgated by the Department of Finance and Administration, Local Government Division. Those procedures are as follows:

- 1 Prior to July 1, the District Treasurer submits to the Board of Directors a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America.
2. After the Board of Directors approves the proposed budget, it is then submitted to the Local Government Division for review and certification.
3. Upon certification the budget becomes a legally binding document which does not allow total expenditures in any fund to exceed the amount budgeted. Appropriations lapse at year-end.
4. The Board of Directors is authorized to make budget revisions with the Local Government Division's approval.
5. Formal budgetary integration is employed as a management control device during the year.

3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

New Mexico State Statutes authorize the District to deposit cash with a bank, savings and loan association, or credit union whose deposits are insured by an agency of the United States. All cash deposits that exceed the Federal Deposit Insurance Corporation (FDIC) amount of \$250,000, are required to be collateralized with eligible securities, as described by New Mexico State Statutes, in amounts equal to at least 50% of the deposits.

The District maintains cash in five financial institutions, City Bank, Compass Bank, First National Bank, Pioneer Bank and Washington Federal, all located in Ruidoso, New Mexico. Collateral is held in safekeeping at the Federal Home Loan Bank of Dallas ("Bank") in the form of designated securities and an Irrevocable Standby Letter of Credit ("LOC"). The LOC was offered in favor of the District for a sum not exceeding \$400,000 on the account of City Bank.

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for custodial risk requires all deposits in excess of \$100,000 to be 102% collateralized by approved bank collateral as described in the District's investment policy.

As of June 30, 2013, the District's bank balance was exposed to custodial credit risk as follows:

	City Bank	Pioneer Bank	First National Bank	Compass Bank	Washington Federal
Total deposits	\$ 571,460	\$ 233,896	\$ 205,822	\$ 213,749	\$ 323,872
FDIC coverage	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>
Total uninsured public funds	321,460	-	-	-	73,872
Collateralized by securities held by the pledging institution	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>699,695</u>
Funds over collateralized	<u>\$ 78,540</u>	<u>\$ 16,104</u>	<u>\$ 44,178</u>	<u>\$ 36,251</u>	<u>\$ 625,823</u>

4. RECEIVABLES

Accounts receivable at June 30, 2013 consisted of the following:

	Water and Wastewater
Water and wastewater	\$ 212,473
Fire protection fees	<u>10,850</u>
Total	<u>\$ 223,323</u>

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Retirements and Transfers	Ending Balance
Capital assets not being depreciated:				
Land and rights of way	\$ 511,235	\$ -	\$ -	\$ 511,235
Construction in progress	<u>852,741</u>	<u>2,240,484</u>	<u>(3,013,933)</u>	<u>79,292</u>
Total capital assets not being depreciated	<u>1,363,976</u>	<u>2,240,484</u>	<u>(3,013,933)</u>	<u>590,527</u>
Capital assets being depreciated:				
Building and improvements	640,653	41,543	-	682,196
Office furniture and equipment	93,432	-	-	93,432
Water and sewer systems	2,825,572	855	3,013,933	5,840,360
Vehicles	78,235	-	-	78,235
Equipment	<u>63,700</u>	<u>124,915</u>	<u>-</u>	<u>188,615</u>
Total capital assets being depreciated	3,701,592	167,313	3,013,933	6,882,838
Less accumulated depreciation	<u>651,325</u>	<u>239,232</u>	<u>-</u>	<u>890,557</u>
Total capital assets being depreciated, net	<u>3,050,267</u>	<u>(71,919)</u>	<u>3,013,933</u>	<u>5,992,281</u>
Capital assets, net	<u>\$ 4,414,243</u>	<u>\$ 2,168,565</u>	<u>\$ -</u>	<u>\$ 6,582,808</u>

Depreciation Expense—Depreciation expense was \$239,232 and was charged to the water activity for the year ended June 30, 2013.

6. ACCRUED LIABILITIES AND OTHER EXPENSES

Accrued liabilities and other expenses are as follows at June 30, 2013:

	Water and Wastewater
Accrued salaries	\$ 10,333
Insurance payable	9,225
Customer deposits	3,643
Gross receipts tax payable	8,627
Accrued interest payable	<u>12,497</u>
Total	<u>\$ 44,325</u>

7. ACCRUED COMPENSATED ABSENCES

The District's leave policy allows employees to accumulate sick leave and vacation leave. Vacation leave accrues monthly and is available to use after an employee's anniversary date. All vacation leave earned in the prior year must be used prior to the employee's next anniversary date. Upon termination, any accumulated vacation will be paid to the employee. Fifty percent of the accumulated sick leave is paid upon termination. As of June 30, 2013 employees had approximately 972 hours of accumulated vacation leave, totaling \$21,477, and approximately 916 hours of accumulated sick leave, totaling \$12,649.

8. LONG-TERM DEBT

Changes in long-term debt during the year ended June 30, 2013, were as follows:

	Balance June 30, 2012	Increase	Decreases	Balance June 30, 2013	Due Within One Year
Business-type activities:					
New Mexico Finance Authority loan	\$ 4,251,388	\$ -	\$ (188,762)	\$ 4,062,626	\$ 192,228
DPV Assessment	25,813	-	(1,475)	24,338	1,546
Compensated absences	36,067	21,191	(23,132)	34,126	13,989
	<u>\$ 4,313,268</u>	<u>\$ 21,191</u>	<u>\$ (213,369)</u>	<u>\$ 4,121,090</u>	<u>\$ 207,763</u>

Compensated absences typically have been liquidated in the fund to which the employees are assigned.

New Mexico Finance Authority Loan

On March 31, 2008, the District entered into a \$4,090,500 drinking water revolving fund loan agreement with the New Mexico Finance Authority to finance the purchase of the water and wastewater utility and for future capital improvements. As of June 30, 2013, \$4,076,748 has been borrowed under the agreement. The loan bears interest at 2% and is payable in forty semi-annual installments of principal and interest pursuant to the final loan agreement payment schedule, beginning November 2, 2011 and ending May 2, 2031. The loan is secured by the revenues of the utility system and contains several loan covenants. The loan balance at June 30, 2013 was \$3,737,820.

On September 1, 2010, Deer Park Valley started charging an assessment fee for paving work done. As of June 30, 2013, the District is paying the fee for two lots in Deer Park Valley. The assessment fee is payable in installments of \$671 per lot for the next 15 years starting April 2011. Installments are payable in two installments per year, in April and October over the term of the loan. The loan bears interest at 2.375%. The loan balance at June 30, 2013 was \$24,338.

On June 17, 2011, the District entered into a loan/grant agreement with the New Mexico Finance Authority to finance the costs of rezoning 24% of their existing water distribution system to meet national standards. Under the agreement, the District will borrow \$360,002 and will accept a grant in the amount of \$1,440,006. As of June 30, 2013, \$360,002 has been borrowed under the agreement. The loan is payable in twenty annual installments of principal pursuant to the debt service schedule, beginning June 1, 2012 and ending June 1, 2031, without interest and with an administrative fee equal to 0.25% per annum of the unpaid principal balance of the loan amount. The loan is secured by the revenues of the utility system. The loan balance at June 30, 2013 was \$324,806.

Loan principal and interest payments for each of the next five years and thereafter are as follows:

Year Ending June 30:	Principal	Interest	Total
2014	\$ 193,774	\$ 67,362	\$ 261,136
2015	197,385	64,189	261,574
2016	201,068	60,951	262,019
2017	204,826	57,646	262,472
2018	208,662	54,272	262,934
2019-2023	1,103,633	218,322	1,321,955
2024-2028	1,203,455	123,495	1,326,950
2029-2031	774,161	25,607	799,768
Totals	\$ 4,086,964	\$ 671,844	\$ 4,758,808

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains insurance policies acquired from independent insurance carriers covering all structural property, automobiles, crime coverage, personal property and general liability.

OTHER SUPPLEMENTAL INFORMATION

**STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL ON BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Local effort taxes	\$ 50	\$ 50	\$ -	\$ (50)
Total general fund revenues	<u>50</u>	<u>50</u>	<u>-</u>	<u>(50)</u>
EXPENDITURES:				
General government	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	50	50	-	(50)
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - end of year	<u>\$ 50</u>	<u>\$ 50</u>	<u>\$ -</u>	<u>\$ (50)</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION -
BUDGET AND ACTUAL ON BUDGETARY BASIS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Original Budget	Final Budget	Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
REVENUES:				
Water revenue	\$ 706,992	\$ 706,992	\$ 774,790	\$ 67,798
Irrigation water revenue	341,378	341,378	453,911	112,533
Wastewater revenue	98,686	98,686	98,778	92
Fire protection fees	99,138	99,138	98,806	(332)
System upgrade fees	111,363	111,363	159,967	48,604
Solid waste charges	188,212	188,212	185,884	(2,328)
Other charges for services	53,531	53,531	57,461	3,930
	<u>1,599,300</u>	<u>1,599,300</u>	<u>1,829,597</u>	<u>230,297</u>
EXPENDITURES:				
Operating expenses				
Personnel services	522,285	522,285	506,778	15,507
Utilities and fuel	169,092	169,092	189,160	(20,068)
Other operating expenses	376,318	376,318	368,710	7,608
Depreciation expense	239,232	239,232	239,232	-
	<u>1,306,927</u>	<u>1,306,927</u>	<u>1,303,880</u>	<u>3,047</u>
Nonoperating revenues (expenses):				
Interest income	13,378	13,378	12,971	(407)
Interest expense	(39,730)	(39,730)	(76,968)	(37,238)
Grant revenue	-	-	1,334,260	1,334,260
	<u>(26,352)</u>	<u>(26,352)</u>	<u>1,270,263</u>	<u>1,296,615</u>
Changes in net position	266,021	266,021	1,795,980	1,529,959
Fund balance - beginning of year	<u>2,006,934</u>	<u>2,006,934</u>	<u>2,006,934</u>	<u>-</u>
Fund balance - end of year	<u>\$ 2,272,955</u>	<u>\$ 2,272,955</u>	<u>\$ 3,802,914</u>	<u>\$ 1,529,959</u>

See accompanying notes to financial statements.

**STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT**

**SUPPLEMENTAL SCHEDULE OF DEPOSITS
JUNE 30, 2013**

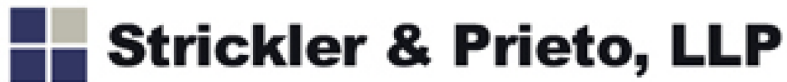
	City Bank	Compass Bank	Pioneer Bank	First National Bank	Washington Federal	Total
Account type						
Checking	\$ 571,460	\$ -	\$ -	\$ -	\$ -	\$ 571,460
Certificate of Deposit	<u>-</u>	<u>213,749</u>	<u>233,896</u>	<u>205,822</u>	<u>323,872</u>	<u>977,339</u>
Amounts on deposit	571,460	213,749	233,896	205,822	323,872	1,548,799
Reconciling items	(381,139)	-	-	-	-	(381,139)
Cash on hand	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>375</u>
	<u>\$ 190,321</u>	<u>\$ 213,749</u>	<u>\$ 233,896</u>	<u>\$ 205,822</u>	<u>\$ 323,872</u>	<u>\$ 1,168,035</u>

**STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT**

**SUPPLEMENTAL SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2013**

Name of Depository	Pledged Collateral	Maturity	Letter of Credit/ CUSIP Number	Name and Location of Custodian	Fair Market Value June 30, 2013
City Bank	Irrevocable standby letter of credit	July 3, 2013	3474001375	FHLB Bank, Dallas, Texas	\$ 400,000
Washington Federal	FHLMC Gold PC A94288	August 20, 2061	3620E0NW2	First Federal Savings Bank	\$ 699,695

COMPLIANCE SECTION



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Hector H. Balderas, New Mexico State Auditor
and the Board of Directors of the
Alto Lakes Water and Sanitation District
Alto, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Alto Lakes Water and Sanitation District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as finding 2013-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2013-1 and 2013-2.

Entity's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Strickler & Prieto, LLP

November 13, 2013

STATE OF NEW MEXICO ALTO LAKES WATER AND SANITATION DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES YEAR ENDED JUNE 30, 2013

2013-1: Significant Deficiencies Relating to Controls over Financial Reporting - Revenues

Condition

Following the commencement of audit fieldwork, adjusting entries were identified that had a significant effect on the revenues of the District. Revenues were increased by approximately \$771,000 due to unrecorded grant revenue.

Criteria

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Statement on Auditing Standards ("SAS") Number 115 (AU 325) paragraph 15 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control. SAS 115 defines a *significant deficiency* as a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Effect

The District may not have the ability to prevent and detect material misstatements in their financial statements. Internally generated financial information does not provide management with reliable data to make financial decisions.

Cause

Financial reporting controls are not adequate to assure that accurate financial information is prepared.

Recommendation

The District should ensure that a comprehensive internal control structure is designed, documented, and implemented. The body charged with governance should provide effective oversight of the internal control and financial reporting process. Management should implement financial reporting controls that provided assurance that internally generated financial information is accurate.

Management's Response

The District agrees with the finding and recommendation given. Management will implement financial reporting controls to ensure the accuracy and completeness of financial activity.

2013-2: Capitalization of Work in Progress - Other Finding

Condition

While performing capital asset testwork, we observed capital assets that were not being transferred from construction work in progress to the appropriate capital asset category in the proper fiscal period. Capital assets of approximately \$3,500,000 were transferred from construction in progress to the appropriate capital asset category as a result of audit testwork.

Criteria

Accounting policies and procedures require that the District implement a systematic and well documented system for the accounting of capital assets. The accounting system must be capable of generating lists of capital assets in sequences useful for managing them.

Effect

The ongoing construction projects are not always capitalized at the appropriate time and the prior year's existing balances are not being taken into effect by the District.

Cause

The District did not perform a roll forward that would track all construction in progress activity.

Recommendation

A construction in progress listing should be maintained which then should be monitored for completion at the project level. Individual projects that meet the capitalization threshold should be capitalized in the fiscal year that the criteria is met.

Management Response

Management acknowledges there has been deficiencies in monitoring project level capitalization at completion. Management will ensure a construction in progress listing is maintained and capitalized when projects are finalized.

STATUS OF PRIOR YEAR FINDINGS

NONE NOTED

**STATE OF NEW MEXICO
ALTO LAKES WATER AND SANITATION DISTRICT**

**EXIT CONFERENCE
FOR THE YEAR ENDED JUNE 30, 2013**

An exit conference was conducted on November 25, 2013 at the District's offices with the following individuals in attendance:

Alto Lakes Water and Sanitation District

Daniel B. Knorr
Gary G. Parker
David Edington
Delores Brewington

Chairman
Secretary
District Manager
Office Manager

Strickler & Prieto, LLP

Phillip Strickler

Audit Partner

Financial Statement Preparation

The District's independent public accountants prepared the accompanying financial statements; however, the District is responsible for the financial statement content.